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DIRECTORATE OF INTELLIGENCE

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*JAPAN: Tokyo's recently announced program to change "drastically" its foreign trade and investment policy is not expected to have much impact in the near future.

The program, coming less than two months after Prime Minister Sato's decision to re-examine Japan's trade and investment policy, is designed to curb growing foreign criticism of these policies and to relieve pressure for revaluation of the yen. It was announced just prior to this week's Ministerial Council meeting of the Organization for European Cooperation and Development, apparently in hope of heading off criticism there of Tokyo's policies. Most of the program's eight points concern liberalizing imports, but steps to cut back export growth also are included. Moreover, Tokyo hopes to step up capital outflows, primarily to restrain rapidly growing foreign reserves.

Despite the urgency and importance attached to the program, however, few significant changes in Japan's restrictive policy are expected soon. Many of the so-called policy changes in fact already are in effect, some for several years, while other aspects of the eight-point program are still in the study stage. In the case of removing nontariff trade barriers, which is essential to a meaningful import liberalization reform, Tokyo merely states progress will be made. In addition, Tokyo will find it very difficult to speed up its already rapid expansion of Japanese capital expenditures abroad.

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*The acting director of the Bureau of Intelligence and Research, Department of State considers that in view of the scantiness of the information thus far received on the new Japanese announcement, it is premature to reach any analytical judgments about its real import.*

EGYPT: The US Interests Section in Cairo reports information [redacted] that President Sadat is planning further adjustments in the cabinet formed after the major purge in mid-May. 25X1

The reputed scenario calls for Prime Minister Mahmud Fawzi to move up to the vice presidential post left vacant by Ali Sabri's dismissal. In two other reported shifts, Abd al-Munim Qaysuni, a former deputy premier for finance and economy under Nasir, would replace Fawzi as prime minister, and Deputy Premier for Industry and Trade Aziz Sidqi would be appointed secretary general of the Arab Socialist Union, Egypt's only political party.

Such a realignment would be plausible if Sadat sees a need to install a second vice president to go along with the incumbent Husayn Shafii, whom most observers discount as a political lightweight. Furthermore, Sadat might well prefer the septuagenarian Fawzi as his constitutional successor rather than some more ambitious man.

Little is known of Qaysuni's activities during the present administration. During his service in the cabinet under Nasir he was regarded as a highly competent and effective technician and a political moderate. If Deputy Premier Sidqi is appointed to the ASU post, it might be interpreted as a demotion, because the organization has come under heavy criticism since Sadat purged its top leadership last month. [redacted] 25X1

<u>INDIA</u>: The government may request additional PL-480 food aid as a result of the serious damage to India's wheat crop by last month's heavy rains.

The four states that account for 70 percent of India's wheat and other spring crops claim that in some areas the entire wheat crop was washed away, including grain already harvested but lying in the fields and inadequately stored in local markets. Total losses include several million tons of wheat as well as cotton, rice, fruit, and spices. This damage will add to the drain on the Indian food stocks for the Pakistani refugees.

Mrs. Gandhi had promised during the election campaign that concessional food-grain imports would end in 1971, but in May, before the rains, New Delhi requested another million tons of PL-480 wheat in addition to a 1.6-million ton agreement signed in April. This request may be increased and shipments extended into 1972.

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USSR-IRAQ: Moscow is to expand its participation in the development of the Iraqi oil industry.

Under the terms of two recently signed contracts the USSR has agreed to prepare plans for the second stage of development of the North Rumaila oil field, a concession formerly held by the Iraq Petroleum Company (IPC), and for the exploitation of a small oil field nearby. These contracts are part of a $67-million Soviet credit extended in 1969.

Work on the first phase of the development of North Rumaila, primarily the drilling of ten wells, has been going on since last September. The second stage, which includes the drilling of 20 wells and construction of pipelines, is expected to begin early next year and should be completed in 1974. Annual production from the North Rumaila area is expected to reach nearly 20 million tons ultimately, while the small oil field nearby will provide two million tons per year.

The Iraqi Government and the IPC are expected to resume negotiations later this year on the status of North Rumaila. Although talks on this subject have been going on periodically since 1961, they have been dormant since 1965. The IPC has no illusions about recovering its former concessions in North Rumaila, but it hopes through the upcoming negotiations to buy, perhaps at preferential prices, future production from this field. The expansion of the Soviet presence in the area may militate against such hopes. [redacted] 25X1

<u>MALI - COMMUNIST CHINA</u>: Peking has agreed to study in depth a major aid project.

Further reporting on the results of a trip to Peking last month by Mali's foreign minister indicates China soon will undertake a year-long feasibility study of the $130-million Manatali dam project which Mali considers central to its development. If approved, construction would not begin before 1973, with completion expected in three years. The project comes under the umbrella of the Organization of Senegal River States, a regional economic grouping consisting of Mali, Guinea, Mauritania, and Senegal.

China may also have held out the possibility of limited military aid during the foreign minister's trip. The French ambassador to Mali believed arms were offered. A Chinese military delegation has been visiting Mali since 2 June on its return home from a trip to neighboring Guinea. Results of its discussions are not yet known.

These latest contacts between Bamako and Peking on aid have prompted Paris, Mali's main financial backer, to be more forthcoming with its own assistance. The French ambassador has indicated that a French mission coming to Bamako this week will study new developmental aid and that Paris has also decided to grant additional budgetary help if requested.

Mali's desperate need for economic aid and the pragmatic outlook dominant within the military junta that rules the country have led it to seek help from all quarters. Also, increased aid from any non-French source--including Communist--is seen as a way to avoid the risks of overdependence on the former metropole. Nevertheless, Bamako still relies heavily on French economic and political support and no major Malian drift away from France and toward China is likely. 25X1

<u>ORGANIZATION OF AFRICAN UNITY</u>: The 16th OAU Ministerial Council is scheduled to convene in Addis Ababa on Friday to prepare for the heads of state conference opening on 21 June.

The last session of the Ministerial Council ended abruptly in March after participants became deadlocked over whether to seat representatives of Uganda's ousted president Obote or a delegation from the new military government. Apparently a majority of OAU states now favor seating the military government. Moreover, Tanzania, which was in the forefront of those states that favored the Obote delegation and that later succeeded in changing the venue of the coming conferences from Kampala to Addis Ababa, now will not strongly oppose seating the military government's delegation.

If the Uganda issue has in fact been resolved, it is uncertain what the conference delegates will discuss. Among the most likely topics are British arms sales to South Africa and the controversial proposal of President Houphouet-Boigny of Ivory Coast that African states enter into talks with South Africa without requiring Pretoria first to modify its racial policies.

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ZAMBIA-PORTUGAL: Talks begin today between Zambian and Portuguese officials in New York in an effort to end Lisbon's unofficial suspension of grain imports to Zambia over Portuguese African railroads.

Portugal stopped virtually all grain shipments last February because of the abduction in Mozambique and probable slaying of five Portuguese civilians by Zambia-based guerrillas. The Zambians are also likely to raise the question of Portuguese involvement in cross-border raids into Zambia conducted last month by Angola-based Zambian dissidents. Previous efforts to resolve the dispute through direct talks in the UK and Malawi ended in a deadlock, and the Zambians have avoided diplomatic contact since early April.

The Portuguese reportedly are not optimistic, and will demand at a minimum that Lusaka show some willingness to reduce its support of the anti-Portuguese guerrillas. Lisbon especially wants Zambia to punish the guerrilla organization that touched off the dispute in January.

Lusaka seems prepared to discuss these issues,
25X1 [redacted]
25X1 [redacted] Some give in the Zambian position may develop as negotiations proceed, however, especially if last month's raids into Zambia helped to convince Lusaka that it should at least talk things over with Lisbon.

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PERU: The Velasco government is making a concerted effort to sell its excessive fishmeal stocks to the Soviet Union, Communist China, and Cuba.

In addition to the trade mission already in China, Minister of Fisheries Tantalean will travel to Peking on 14 June to discuss the subject following similar talks currently under way in the USSR.

25X1 [redacted] talks on a possible sale are also going on with a Cuban delegation in Lima.

The large buildup in stocks of fishmeal, which deteriorates in storage, results from the fixed price policy of the state marketing agency. Cutting prices to encourage sales on the world market, however, would involve rebates on earlier sales contracts. Unless Velasco is successful in disposing of these stocks without financial loss he will be open to strong criticism from military officers who are already disenchanted with many of the regime's policies. [redacted] 25X1

SWITZERLAND: James Schwarzenbach, a maverick member of Parliament and controversial spokesman for ultraconservative political opinion, has formed a new political party to compete in the national elections this fall. The announced intention of the new group is to gain at least ten seats in the National Council.

Schwarzenbach's group, the National Republican and Social Action Movement, will continue his zealous campaign against the high incidence--nearly 16 percent--of foreign residents and laborers in the country. Schwarzenbach attributes all of Switzerland's domestic ills, including inflation, to foreign influence. A year ago the Schwarzenbach initiative--his proposal to reduce the number of foreign residents to ten percent in each canton and to 25 percent in Geneva--stirred the Swiss from their political lethargy for the first time in several years. Although defeated in a national referendum, the proposal revealed a sizable conservative and xenophobic sentiment, particularly in German-speaking cantons and among the lower-income and old age groups.

In an attempt to counter the impact of Schwarzenbach's efforts, the government, prior to the referendum, instituted a quota system for work permits which was aimed at reducing foreign laborers gradually and indirectly through yearly attrition rates. Whether or not this tactic had any political influence, the defeat of the initiative enabled the government to continue discussions with the Common Market, which has a free labor market mechanism, unencumbered by Schwarzenbach's legislation.

Bern's quota program has been partially successful in reducing the number of persons under resident worker permits, but in fact the total of all foreign nationals in Switzerland actually rose to an all-time high during 1970, which may serve to reactivate the Swiss "silent majority."

(continued)

Although the three dominant Swiss political parties apparently intend to maintain the present government coalition, Schwarzenbach's xenophobic movement underscores the dilemma inherent in Bern's attempts to reconcile conservative domestic sentiment and efforts to curb foreign labor, while at the same time desiring a modus operandi with the intra-European oriented Common Market. [redacted]

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## NOTES

EGYPT: The recently announced military budget, which calls for outlays in the fiscal year beginning in July of about $1.5 billion, represents an intent to spend about $170 million more than in the year now drawing to a close. The bulk of the increase appears earmarked for the "emergency fund" which finances civil defense, refugee relief, and other extraordinary outlays. The regular budget allocation suggests that a high level of military construction--such as the recent extension of more complete air defense installations along the Mediterranean and Red Sea coasts and in the lower Nile Valley--will be pursued in the coming year. It also includes sums to meet pay raises for increased numbers of men under arms. As in past years, equipment supplied by the USSR, which amounted to $650 million in calendar year 1970, is not included in the budget. [redacted]

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[redacted]

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COMMONWEALTH SUGAR: Commonwealth sugar producing nations, meeting in London, have agreed to accept on faith the undertaking by the European Communities (EC) to safeguard their economic interests in the event of British entry into the EC. Although there are no specific sugar quotas, the undertaking is regarded as firm assurance of a secure and continuing market on fair terms for the quantities now sold to the UK under the Commonwealth Sugar Agreement which expires in 1974. Future marketing arrangements for developing Commonwealth sugar producers have been a major issue in British-EC negotiations. [redacted] 25X1

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AUSTRALIA: The government formally joined the Organization for European Cooperation and Development (OECD) during the Ministerial Council meeting in Paris yesterday, thereby becoming the twenty-third member and fourth non-European country along with the US, Canada, and Japan. Membership will permit Canberra to become more actively involved in international financial policy-making, because it will be able to participate in Working Party 3 on balance-of-payments problems. Canberra's interest in becoming a member of the OECD probably reflects the growing likelihood that the UK will join the European Communities and therefore will be less likely to look out for the Australians in the OECD.

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SOUTH AFRICA: The government has decided to spend an estimated $560 million on railroad and harbor improvements in anticipation of a surge in iron ore exports to Japan. New contracts with Japanese importers, expected to be signed by the end of this year, will increase South Africa's iron ore exports from $28 million in 1970 to more than $100 million annually. A new 525-mile railroad will connect government-owned iron ore deposits with Saldanha Bay north of Cape Town, where facilities will be built to accommodate 250,000-ton ore carriers. [redacted] 25X1

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